

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 FEA-01 AEC-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-01 INR-05

INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03 RSC-01 SAM-01

OES-03 SP-02 SS-15 STR-01 TRSE-00 FRB-01 /080 W

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FM AMEMBASSY ROME

TO SECSTATE WASHDC 8631

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY THE HAGUE

USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L ROME 17248

E.O. 11652: GDS

TAGS: ENRG, IT

SUBJECT: ITALIAN ENERGY SITUATION AND POLICY

REF: (A) ROME 16028; (B) ROME A-714; 11/21/74 (BOTH NOTAL)

1. SUMMARY: RECENT DISCUSSION WITH MINISTRY OF INDUSTRY DG FOR ENERGY RISTANGNO COVERED MAJOR ELEMENTS CURRENT ITALIAN ENERGY SITUATION AND DOMESTIC POLICY. RISTAGNO MODERATELY OPTIMISTIC ON BOTH COUNTS, BUT CONVERSATION TENDED TO CONFIRM THAT GOI ENERGY POLICY STILL AWAITS DECISIONS BY NEW MORO GOVERNMENT. END SUMMARY

2. RISTAGNO TOLD US THAT WHILE CURRENT ENERGY SITUATION IS NOT CONFIDENTIAL

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GOOD, SITUATION IS NEITHER CRITICAL NOR IMMEDIATELY THREATENING.

GASOLINE AND MIDDLE DISTILLATES (GASOIL, LIGHT FUEL OIL) REMAIN OVER-ABUNDANT, AND SHORTAGES CENTER PRIMARILY ON HEAVY FUEL OIL AND LIQUIFIED PETROLEUM GAS (LPG) (SEE REFS). HOWEVER, ENEL HAS BEEN ABLE TO RESOLVE ITS NEAR-TERM PROBLEMS BY IMPORTATION OF HEAVY FUEL OIL AT WORLD PRICES AND THUS BLACKOUTS ARE NOW UNLIKELY. (LACK OF RESERVE GENERATING CAPACITY STILL IMPORTANT CONSTRAINT.) INDUSTRY IS BEING FORCED TO STRETCH ITS EXISTING STOCKS OF HEAVY FUEL OIL WITH MORE EXPENSIVE MIDDLE DISTILLATES, BUT NO IMMEDIATE SHORTAGES FORESEEN. PROBLEM OF LPG REMAINS AND NO GOOD SOLUTION IS POSSIBLE UNTIL REFINING ACTIVITY PICKS UP. MAJOR FAVORABLE FACTORS THUS FAR REDUCING CONSUMPTION ARE HIGH RETAIL PRICES FOR GASOLINE AND HEATING OIL, CONCERN OVER ECONOMIC SITUATION AND MILD WINTER.

3. CURRENT ITALIAN ENERGY POLICY CENTERS AROUND PRIME MINISTER MORO'S PLEDGE (ROME 16782) TO REDUCE IMPORTS OF CRUDE OIL 10 PERCENT FROM 1973 LEVELS. RISTAGNO BELIEVES THAT THIS GOAL CAN BE MET WITHOUT TOO MUCH DIFFICULTY. HE POINTED OUT THAT GASOLINE CONSUMPTION DOWN 9.7 PERCENT AND MIDDLE DISTILLATE CONSUMPTION DOWN 3 PERCENT IN FIRST 10 MONTHS. IMPORTS OF NATURAL GAS HAVE ALSO DECLINED BECAUSE OF SUSPENSION OF ARRIVALS OF LIBYAN NATURAL GAS. (ROME 13839). RISTAGNO RECOGNIZED THAT REDUCING USE OF HEAVY FUEL OIL IS DIFFICULT SINCE INDUSTRY CAN MAKE ONLY LIMITED SHORT-TERM REDUCTIONS IN USE, BUT THAT CONSERVATION MEASURES (SUCH AS REDUCED TEMPERATURES IN FACTORIES, MORE EFFICIENT BURNERS, INSULATION IMPROVEMENTS) SHOULD GIVE SIGNIFICANT SAVINGS OVER SHORT AND MEDIUM TERM, WHILE USE OF ELECTRICITY FOR HEATING HAS DROPPED AFTER SOME RATE INCREASES. HE DISCOUNTS BOTH FORMAL RATIONING AND RETURN TO THE AUSTERITY MEASURES OF LAST WINTER.

4. RISTAGNO TOLD US THAT HE IS FAIRLY SURE THAT SOME PRICE RELIEF WILL BE FORTHCOMING FOR THE COMPANIES, PROBABLY BEFORE COMPLETION OF A STUDY OF THE PRICING STRUCTURE REQUESTED BY NEW MIN IND DONAT CATTIN BY JANUARY 31. IN RETURN, THE COMPANIES WILL BE ASKED TO FURNISH THEIR OPERATING PLANS FOR THE FIRST-QUARTER OF 1975. RISTAGNO EXPECTS HEAVY FUEL OIL PRICES TO BE ADJUSTED BEFORE DECEMBER 19, WHEN DONAT CATTIN WILL BE QUESTIONED IN PARLIAMENT ON THE ENERGY SITUATION. RISTAGNO BELIEVES THAT DONAT CATTIN, DESPITE HIS MEMBERSHIP IN THE FAR LEFT OF THE DC, CONFIDENTIAL

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MAY BE ABLE TO WORK WITH THE COMPANIES BETTER THAN HIS PREDECESSOR DE MITA.

5. RISTAGNO IS CLEARLY HAVING DIFFICULTY WITH THE WORKLOAD ARISING FROM ENERGY SITUATION AND THE IEA PROGRAMS. (HE REMARKED THAT HE HAD JUST RECEIVED TELEGRAM FROM SHELL 8 METERS LONG.) HIS COMPLAINT WAS ECHOED MORE CONCRETELY IN DECEMBER 12 CONVERSATION WITH MFA ENERGY EXPERT, WHO NOTED THAT IEA WORKING PARTIES,

COMMITTEES AND GROUPS ARE STRETCHING ITALIAN ENERGY PERSONNEL RESOURCES AND DILUTING THE QUALITY OF ITALIAN PARTICIPATION.

6. COMMENT: EFFECTS THUS FOR FROM HIGHER DOMESTIC PRICES, COUPLED WITH PROSPECT FOR HIGHER PRICES STILL AND UNFAVORABLE ECONOMIC OUTLOOK AND POTENTIAL FOR ADOPTION CONSERVATION MEASURES SUGGEST THAT FURTHER CONSUMPTION CUTS POSSIBLE; THUS, 10 PERCENT TARGET LEVEL MAY BE WITHIN REACH WITHOUT DIRECT MEASURES TO REDUCE CONSUMPTION.

7. PRICE RELIEF FOR THE COMPANIES WILL REPRESENT AN IMPORTANT POLITICAL CONCESSION BY GOI. ALTHOUGH INERIM PRICE RELIEF IS LIKELY TO BE CONFIRMED TO FUEL VL AND IS UNLIKELY FULLY TO RESTORE PROFITABILITY, THE COMPANIES CAN TAKE SOME HEART FROM THE PROMISED PRICE REVIEW. DONAT CATTIN'S PREDECESSOR (DE MITA) HAD OFFERED A LIRE 5,000 PER TON RELIEF ON HEAVY OIL IN RETURN FOR THE COMPANIES ANNUAL OPERATING PLANS (WHICH WERE TO BE USED TO PUSH COMPANIES TO MAINTAIN CERTAIN OPERATIONAL LEVELS). THE COMPANIES MAINTAINED THAT MIDDLE EASTERN PRICE UNCERTAINTIES, COUPLED WITH LACK OF ASSURANCES ON ITALIAN DOMESTIC PRICE LEVELS, PREVENTED THEM FROM FORMULATING ANNUAL PLANS. IN THE ABSENCE OF ADEQUATE PRICES, THE COMPANIES INTENDED TO OPERATE AT MINIMUM LEVELS. THE REQUEST FOR QUARTERLY PLANS IS A FOOT IN THE DOOR BUT COMPANIES MUST PREPARE SIMILAR DOCUMENTS FOR INTERNAL PLANNING PURPOSES IN ANY CASE.

8. THE DISCUSSION WITH RISTAGNO DID LITTLE TO DISPELL THE IMPRESSION THAT DOMESTIC ITALIAN ENERGY POLICY HAS NOT YET RECEIVED SYSTEMATIC SCRUTINY AT POLITICAL LEVELS. THE GOI HAS RELIED ON PRICES TO RESTRAIN OVERALL CONSUMPTION, BUT USED A SQUEEZE ON COMPANY MARGINS TO DETERMINE PRODUCT MIX, TO ALLOCATE SUPPLIES (PARTICULARLY BETWEEN IMPORTS AND EXPORTS) AND REDUCE OVERALL IMPORTS. THIS POLICY HAS PRODUCED THE SUBSTANTIAL CURRENT

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SURPLUSES OF GASOLINE AND MIDDLE DISTILLATES AND SHORTAGES HEAVY FUEL OIL AND LPT. SOME DISTORTION INEVITABLE: NOT ONLY IS HEAVY FUEL OIL MUCH LESS PRICE ELASTIC IN SHORT RUN THAN GASOLINE, BUT COMPANIES LOSE MONEY ON IT. GOI IS AWARE PROBLEMS, BUT HERETOFORE HAS GIVEN PRIORITY TO AVOIDING PRICE AND EMPLOYMENT EFFECTS OF FUEL OIL PRICE INCREASE. RESULTING PRICE STRUCTURE HAS CREATED EXPENSIVE SUPPLY DISEQUILIBRIA, FORCEING RELIANCE ON EMERGENCY PURCHASES IN FOREIGN SPOT MARKETS, ENLARGED PURCHASES (AND LOSSES) BY LAST-RESORT SUPPLIER ENI, THE HIGHEST COST ITALIAN CRUDE IMPORTER, AND FORCED MANY INDEPENDENTS (WHICH NORMALLY ACCOUNT FOR 30 PERCENT HEAVY FUEL OIL SUPPLIES) TO ABANDON DOMESTIC MARKET. NET EFFECT HAS BEEN SOME DISRUPTION SUPPLIES FOR INDUSTRY AND DLECTRICAL PRODUCTION. RESOLUTION THESE PROBLEMS AND ACHIEVEMENT OF MORO'S 10 PERCENT REDUCTION WILLDEPEND UPON PRINCIPALLY ON ADOPTION OF A SENSIBLE PRICE STRUCTURE, A BIT OF LUCK AND PERHAPS,

NEW PROGRAMS FOR CONSERVATION. VOLPE

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## Message Attributes

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